

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2013-7

UNITED STATES POSTAL SERVICE
NOTICE OF MARKET-DOMINANT PRICE ADJUSTMENT
(May 10, 2013)

Pursuant to 39 U.S.C. § 3622 and 39 C.F.R. § 3010, the Postal Service hereby provides notice that the Governors have authorized the Postal Service to automatically include, at no additional charge, \$50 or \$100 of insurance coverage (depending on the postage payment method used) with most Priority Mail® pieces (the Price Change).¹ The Price Change is scheduled to take effect on July 28, 2013.

This Notice provides the information required by Rule 3010.14. Part I discusses how the Price Change is structured. Part II describes the Price Change's compliance with the price cap. Part III discusses how the prices affected by the Price Change are consistent with the objectives and factors of section 3622, and the preferred pricing requirements of section 3626. Proposed Mail Classification Schedule (MCS) changes are provided at Attachment A.

The Postal Service certifies that it will inform customers of the Price Change, as required by Rule 3010.14(a)(3). The Postal Service will publish a notice in the Postal Bulletin, issue a DMM® advisory and an Industry Alert, and will inform customers about the Price Change at both Mailer Technical Advisory Committee (MTAC) and Postal

¹ No changes are planned for the automatic insurance coverage currently provided with Priority Mail International® pieces.

Customer Council (PCC) meetings. As a result of this outreach, widespread notice will be provided more than 45 days before the Price Change's planned implementation.

Mr. Altaf Taufique will serve as the Postal Service official responsible for responding to any Commission inquiries pursuant to Rule 3010.14(a)(4). Mr. Taufique's contact information is as follows:

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I. PROGRAM DESCRIPTION

The purpose of the Price Change is to improve the competitiveness of Priority Mail and to potentially grow the product's overall market share. Currently, Priority Mail users must pay \$1.95 for domestic insurance coverage up to \$50, and \$2.45 for insurance coverage between \$50.01 and \$100. In contrast, both of the Postal Service's principal domestic competitors (FedEx and UPS) include automatic insurance coverage, up to \$100, with all of their products. Based on this difference, the Postal Service believes that FedEx and UPS gain some competitive advantage with shippers, especially among larger volume mailers.

To close this competitive gap, the Governors have authorized the Postal Service to automatically include insurance coverage: 1) up to \$100 in value, at no additional charge, on all domestic Priority Mail pieces that bear an Intelligent Mail® package barcode (IMpb) and either pay Commercial Plus prices or use a "Qualifying Payment

Method”;² and 2) up to \$50 in value, at no additional charge, on all other domestic Priority Mail pieces that bear an IMpb or a USPS retail tracking barcode.³

Though the Postal Service considered offering \$100 of automatic insurance coverage to all Priority Mail customers, this approach was infeasible due in part to the resulting increase in administrative costs. Accordingly, in order to control the overall cost of the Price Change, while simultaneously achieving the goal of improving Priority Mail’s competitiveness, the Postal Service determined that the proposed structure represented the best approach.

II. PRICE CAP COMPLIANCE

In compliance with 39 C.F.R. §§ 3010.14(b)(1) through (4), the following section discusses and describes the applicable CPI-U price cap, the amount of unused price adjustment authority available for the Special Services class of mail, the percentage change in prices for the Special Services class, and the amount of new unused price adjustment authority generated by the Price Change.

A. Inflation-Based Price Adjustment Authority

Based on the most recently available data from the Bureau of Labor Statistics, the Postal Service has inflation-based price adjustment authority of 1.053 percent. See Attachment B. This is based on the Consumer Price Index – All Urban Consumers, U.S. All Items (the “CUUR0000SA0” series), and conforms with the calculated percentage currently provided on the Commission’s website.

² Qualifying Payment Methods are limited to ePostage, Electronic Verification System (eVS®), Hardcopy Manifest, or an approved Manifest Mailing System.

³ Automatic insurance coverage will not be offered with Priority Mail pieces sent using the following services: Merchandise Return Service, Priority Mail Open and Distribute, or Premium Forwarding Service.

B. Unused Price Adjustment Authority

The existing unused price adjustment authority for the Special Services class is 2.114 percent.⁴ The Postal Service will not utilize any of its unused price adjustment authority in this docket.

C. Overall Price Adjustment Authority

Combining the inflation-based and unused price adjustment authorities, the Postal Service calculates the total price adjustment authority available for the Special Services class to be 3.167 percent. The Postal Service will not utilize any of its available price adjustment authority in this docket.

D. The New Prices

The cap compliance calculation, as defined by the Commission, uses a set of fixed weights applied to the current and new prices to construct a weighted average price change for the affected market-dominant class.⁵ For this Price Change the fixed weights are based on the most recent six months of billing determinants (Q4 FY 12 and Q1 FY 13) since the Postal Service's last market-dominant price adjustment, which was filed on October 11, 2012.⁶

⁴ Docket No. R2013-1, Order No. 1541, at 72 (November 16, 2012).

⁵ 39 C.F.R. § 3010.23.

⁶ See Docket No. R2013-1, United States Postal Service Notice of Market-Dominant Price Adjustment (October 11, 2012). While the Postal Service recognizes that Rule 3010.23(d) requires it to base the fixed weights on the most recent 12 months of billing determinants, the application of this rule in the present docket would cause the Postal Service to reuse billing determinants (Q2 and Q3 of FY 12) from the last market-dominant price change. To avoid this unusual result, the Postal Service believes that it is more appropriate to base the fixed weights in this docket on the most recently available billing determinants (Q4 FY 12 and Q1 FY 13) since its last market-dominant price change. Accordingly, the Postal Service requests a waiver of Rule 3010.23(d) in this docket. Additionally, the Postal Service expects that the billing determinants for Q2 FY 13 will become available during the pendency of this docket. However, in order to receive a Commission order in time to meet system development timelines, the Postal Service determined that it was necessary to submit this pleading before the Q2 FY 13 billing determinants were finalized.

In this filing the Postal Service is decreasing the price of Insurance coverage (up to \$50 or \$100 in value) to \$0 for most Priority Mail pieces. The Postal Service has prepared workpapers demonstrating how the new prices for the Special Services class comply with the price cap. The workpapers, which are being filed separately, are designated as “USPS-LR-R2013--7/1 Special Services Cap Compliance.” The workpapers also include a preface that provides an overview of the content and an explanation of the revenue calculations.

E. Percentage Change by Mail Class

As demonstrated in USPS-LR-R2013-7/1, the prices for the Special Services class comply with the annual limitation of price adjustment authority available to the Postal Service. The percentage change in prices for the Special Service class is -0.452 percent.

F. Unused Pricing Authority Resulting From this Change

After the Price Change, the Postal Service calculates its total unused price adjustment authority as follows:

Table 1
Unused Pricing Authority Available Following this Price Change

Class	Percentage Points
Special Services	
R2013-1 [1]	2.114
R2013-7	1.505
Total	3.619

[1] Docket No. R2013-1, Order No. 1541, at 72.

III. OBJECTIVES AND FACTORS, WORKSHARE DISCOUNTS, AND PREFERRED RATES

In compliance with Rules 3010.14(b)(5) through (8), this section discusses how the Price Change “help[s] achieve” the objectives of section 3622(b) and “properly take[s] into account” the factors of section 3622(c). This section also discusses how the Price Change impacts workshare discounts and how the planned prices are consistent with section 3626.

A. Objectives and Factors

The Price Change furthers several of the objectives listed in section 3622(b). The Price Change fulfills the fifth objective, as it improves the competitiveness of one of the Postal Service’s products, thereby ensuring adequate revenues over the long term. The Price Change also accords with the fourth objective, as it is an example of the use of the pricing flexibility reserved to the Postal Service under the Postal Accountability and Enhancement Act. Finally, as explained above, the Price Change is aligned with the eighth objective, as it reasonably distinguishes between mailers based on their use of certain postage payment methods. The Price Change does not significantly implicate the other objectives.

In addition to the objectives discussed above, the Price Change also furthers several of the factors listed in section 3622(c). The Price Change is directly connected to the first factor, as it increases the value of Priority Mail service to mailers. The Price Change also accords with the sixth factor, as it is designed to simplify the rate structure by automatically including a certain amount of insurance coverage, at no additional charge, with most Priority Mail pieces. The Price Change does not significantly implicate the other factors.

B. Workshare Discounts

The Price Change does not affect workshare discounts.

C. Preferred Rates

Apart from setting the amount of automatic insurance based on the mailer's use of certain postage payment methods, the Price Change does not exclude any mailers (e.g., Nonprofit mailers) and will therefore not affect compliance with any preferred rate requirements.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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ATTACHMENT A

MAIL CLASSIFICATION CHANGES

(Additions are underlined. Some unchanged language is included, but only to show the location of the changes.)

PART A

MARKET DOMINANT PRODUCTS

1001 MARKET DOMINANT PRODUCT DESCRIPTIONS

* * * * *

1505 Ancillary Services

* * * * *

1505.9 Insurance

* * * * *

1505.9.2 Prices

General Insurance

(\$)		(\$)		(\$)
Merchandise coverage:				
0.01	to	50.00		1.85 ¹
50.01	to	100.00		2.35 ¹
100.01	to	200.00		2.90
200.01	to	300.00		4.85
300.01	to	400.00		5.95
400.01	to	500.00		7.05
500.01	to	600.00		8.15
600.01	to	5,000.00		8.15 plus 1.10 for each 100.00 or fraction thereof over 600.00

Notes

1. Fee does not apply for Priority Mail items, because insurance coverage, up to \$50 or \$100 in value (depending on the postage payment method used), is included in Priority Mail postage. Insurance coverage is not included in Priority Mail postage for items that do not bear an IMpb or retail tracking barcode, or for items sent using Merchandise Return Service, Priority Mail Open and Distribute, or Premium Forwarding Service.

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PART B

COMPETITIVE PRODUCTS

2000 **COMPETITIVE PRODUCT DESCRIPTIONS**

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2100 Domestic Products

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2110 Priority Mail

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2110.1 Description

- a. Priority Mail service provides expeditious handling and transportation.
- b. Any matter eligible for mailing may, at the option of the mailer, be mailed by Priority Mail service for expeditious handling and transportation.
- c. Priority Mail pieces are sealed against postal inspection and shall not be opened except as authorized by law.
- d. Priority Mail pieces that are undeliverable-as-addressed are entitled to be forwarded or returned to the sender without additional charge.
- e. Insurance coverage, up to \$50.00 or \$100.00 in value (depending on the postage payment method used) is included in Priority Mail postage. Insurance coverage is not included in Priority Mail postage for items that do not bear an IMpb or retail tracking barcode, or for items sent using Merchandise Return Service, Priority Mail Open and Distribute, or Premium Forwarding Service.

ATTACHMENT B

Calculation of amount of applicable change in CPI-U and Price Cap

	CPI ^[1]	Last 12 Months Point-to-Point ^[2]	12-Month Total ^[3]	12-Month Total Divided by 12 ^[4]	12-Month Moving Average ^[5]	
Aug-10	218.312	1.1%	2606.0	217.163	1.477%	
Sep-10	218.439	1.1%	2608.4	217.369	1.685%	
Oct-10	218.711	1.2%	2611.0	217.580	1.799%	
Nov-10	218.803	1.1%	2613.4	217.786	1.741%	
Dec-10	219.179	1.5%	2616.7	218.056	1.640%	
Jan-11	220.223	1.6%	2620.2	218.350	1.559%	
Feb-11	221.309	2.1%	2624.8	218.731	1.557%	
Mar-11	223.467	2.7%	2630.6	219.217	1.589%	
Apr-11	224.906	3.2%	2637.5	219.792	1.668%	
May-11	225.964	3.6%	2645.3	220.441	1.799%	
Jun-11	225.722	3.6%	2653.0	221.087	2.008%	
Jul-11	225.922	3.6%	2661.0	221.746	2.208%	
Aug-11	226.545	3.8%	2669.2	222.433	2.426%	
Sep-11	226.889	3.9%	2677.6	223.137	2.653%	
Oct-11	226.421	3.5%	2685.4	223.779	2.849%	
Nov-11	226.230	3.4%	2692.8	224.398	3.036%	
Dec-11	225.672	3.0%	2699.3	224.939	3.157%	
Jan-12	226.665	2.9%	2705.7	225.476	3.263%	
Feb-12	227.663	2.9%	2712.1	226.006	3.326%	
Mar-12	229.392	2.7%	2718.0	226.499	3.322%	
Apr-12	230.085	2.3%	2723.2	226.931	3.248%	
May-12	229.815	1.7%	2727.0	227.252	3.090%	
Jun-12	229.478	1.7%	2730.8	227.565	2.930%	3010.21c Look-back/ Partial-Year ^[6]
Jul-12	229.104	1.4%	2734.0	227.830	2.743%	
Aug-12	230.379	1.7%	2737.8	228.149	2.570%	
Sep-12	231.407	2.0%	2742.3	228.526	2.415%	0.165%
Oct-12	231.317	2.2%	2747.2	228.934	2.303%	0.344%
Nov-12	230.221	1.8%	2751.2	229.267	2.170%	0.490%
Dec-12	229.601	1.7%	2755.1	229.594	2.069%	0.633%
Jan-13	230.280	1.6%	2758.7	229.895	1.960%	0.765%
Feb-13	232.166	2.0%	2763.2	230.270	1.887%	0.930%
Mar-13	232.773	1.5%	2766.6	230.552	1.789%	1.053%

[1] Consumer Price Index -- All Urban Consumers, U.S. All Items (the "CUUR0000SA0" series)

[2] The current month CPI [Column 1] divided by CPI for same month, previous year

[3] Sum of the most recent 12 months CPI measurements in Column [1]

[4] Column [3] / 12

[5] (The current month value in Column [4] / value from same month, previous year) - 1

[6] (Sum of most recent 12 months in Column [4] / most recent 12 months from last price adjustment - Aug 2012) - 1